

## **Business Plan for a Startup Company VRDA | HELSINKI**

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<p>The Bachelor's thesis in question is composed to help the founders of a startup company called VRDA   HELSINKI to discover a successful path to a sustainable business. The author of the thesis is one of the two co-founders of the company and therefore, the process of writing the business plan is planned to function as a great tool for receiving an in-depth understanding about the business processes and to evoke ideas how to cultivate the business. Since the business plan is written alongside the startup process, the matters discussed in the paper are much reflected from the experience gained when establishing the venture.</p> <p>The objective of the plan presented is to penetrate the core idea of the novel business and to cultivate the business idea to a great extent. Through planning, the founders set goals for the company, create a clear and robust vision, scan prospective hindrances and possibilities from the business environment as well as elucidate its mission. That being said, the business plan strives to illuminate whether the business idea is worth proceeding. In addition to refining the business idea, the thesis pursues to enlighten the benefits of pre-startup planning. Hence, the thesis aims at guiding VRDA   HELSINKI and other prospective startup founders with planning processes hereafter.</p> <p>The theoretical framework consists of a review of the literature and empirical experience. The literature review discusses the benefits of pre-startup planning and the problems planning confronts. The empirical experience encompasses the experience the founders have gained during the startup process. The results of both methods indicated the barrage of several approaches in examining whether pre-startup planning should be implemented when establishing a new venture. Due to the complexity of the problem, research has shown the need for a comprehensive approach to the problem that includes observation in contextual conditions, founders' knowledge, environmental uncertainty, firms' risk taking propensity, planning as a process and planning as an outcome, and also in the time spent on planning.</p>	
<b>Keywords</b> Business Plan, Pre-startup Planning, Hotel Industry, Online Reputation Management	

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# 1 Introduction

The thesis is composed to serve the author and her business partner's recently established company called VRDA | HELSINKI. Most often business plans are produced to attain funding for businesses, but the primary purpose of the plan in question is to help founders to discover assets and to set the pillars of business endurance for their company. The crafted plan is built according to the experience that the company founders have gained during the startup process that begun in January 2012. Thus, it is important to note that the business plan is not fully based on the initial ideas and assumptions as many business plans usually are, but more like perceptions that have been formed after testing ideas empirically.

To slightly unveil the founders' angle of doing business in today's world, they believe in high uncertainty and are therefore very cautious with making complex plans that are based on multiple assumptions. It is believed that every confronted setback enables greater learning where to go in order to achieve the wanted outcome and therefore, plans that are made too precisely may lead to confusion that is difficult to handle. Consequently, the business plan is written so that most of the assumptions made are based on the information gathered from the experience, rather than solely on presumptions. That being said, one of the objectives have been to craft a plan so that in case something unexpected happens, the company can easily adapt to a new situation and still keep executing the crafted plan.

To give a short introduction of the company, VRDA | HELSINKI operates in the hotel industry field, providing an online reputation management service to hotel incorporations as well as private hotels. These days economy is very much service based where information and knowledge prevail; technological developments enable people to gather large amounts of information and make money out of knowledge. (Axelsson & Wynstra 2002, 3.) The founders of VRDA | HELSINKI discovered a way to create a service out of a certain technology that gathers online feedback about hotels. Currently, the technology that gathers the information shared online is spreading in the hotel industry but has not yet reached the Finnish markets. This is

where the company founders saw a great opportunity to get involved and build a business around the new trend.

In order to find out whether the business idea would ignite the spark, the founders created the least viable product and started selling. Through the selling process, the founders gained valuable information not only of the product but the whole hospitality industry. One of the very first prospective customer hotels the founders approached was the Hotel Haven. The selling process pivoted to a product development process where VRDA's product was developed together with Hotel Haven's Hotel Manager Janne Ant-Wuorinen. Consequently, Mr. Ant-Wuorinen acted as a mentor to the product development and provided very valuable information about the hospitality industry and hotel operations; information that otherwise would have been impossible to gain without working in the industry for several years. To name a few examples, Mr. Ant-Wuorinen assisted how the product would convey the greatest benefit to its clients, who could be the prospective customers, how the industry works, and what the founders' should take into account when doing business with hotels. Aspects of Mr. Ant-Wuorinen are being reflected throughout the thesis.

The thesis is a creation of a review of the literature and the practical experience gained from the startup process. Since the benefits of creating a business plan has been an intriguing issue for the author, the thesis strives to discover whether startup founders should focus on planning when establishing a new venture. Therefore, the information gained from empirical experience alongside the information gathered from the literature review is an underlying factor of the thesis, striving to discover the benefits of pre-startup planning; the review of the literature covers the benefits of pre-startup planning and the problems planning confronts. Hence, the content of the thesis is built so that at the beginning of the thesis the reader receives an insight of the studies conducted regarding pre-startup planning, and can later reflect the information presented in the literature review to the matters further discussed in the business plan.

## **1.1 Thesis objectives**

The primary objective of the business plan presented is to penetrate the core idea of the novel business; the plan forces the founders to systematically think about every aspect of the new venture. The business plan helps the company in setting more exact goals, creating a clear and robust vision, scanning prospective hindrances and possibilities from the business environment as well as elucidating its mission. In addition, the business plan strives to illuminate whether the business idea is worth proceeding. The plan is aimed to function as a substantial guide for the company VRDA | HELSINKI if the founders decide to continue to execute the business idea in question.

Alongside functioning as a guidebook to the business idea in question, the planning process and the results received have a significant value in the potential startup ventures in the future. Learning from the studies used in the literature review regarding pre-startup planning as well as learning from the founders' experience how planning impacts on business performance create an excellent base for startup planning. Hence, one of the objectives is to find out whether pre-startup planning should occur when establishing a new business or not. Examining the problem in question aims to enlighten the benefits and problems of business planning. The results arisen from the studies can then be utilized in startup ventures.

To summarize, the business plan crystalises the business idea and sets a general course for achieving its company goals. What is more, the process of writing the plan is believed to bring more comprehensive knowledge about the industry where the company VRDA | HELSINKI is designed to function. Furthermore, the planning process as well as the research results of the crafted plan are believed to provide tools for the future founders of startup companies. On the whole, the plan is crafted to present an insight of pre-startup planning and to show a prosperous path to the venture of VRDA | HELSINKI.

## **1.2 Theoretical framework**

The theoretical framework of the business plan consists of a review of the literature as well as empirical research that comprises the startup process. The approach of the

thesis is a combination of empirical experience and concept-based thinking; issues discussed in business books have been reflected with the experience gained through the process of implementing the business idea. Hence, the theoretical framework of the thesis is designed to take the advantage of both the methodologies. In the research, the importance of business planning is being scrutinized; traditional business planning is pitted against scientific experimentation to discover the benefits of pre-startup planning.

A review of the literature focuses on literature sources that examine the indicators of likely business success; does create a business plan raise the chance of success of small businesses, and what are the benefits of planning as well as the problems planning confronts. Traditionally, it is taught that in order to build a successful company, people must invest their time in creating a business plan. However, there are people that claim against the paradigm of spending time on planning and predicting the future.

(Barringer & Ireland 2010, 139.) Based on the authors' observations, the experts in question suggest that the starting process of a new venture should begin with making mistakes in the field and learning from them. According to the experts, experiencing would ensure faster business development when entrepreneurs would receive real feedback in the field. The literature review will scrutinize the two mentioned paradigms of how planning influences on companies' performance.

The empirical part of the thesis encompasses of conducted experiments with prospective clients. When figured out the market possibility, the company founders started their business with implementing the idea of learning through experiments; the founders made leap-of-faith assumptions that required rigorous testing, built the least viable product and arranged meetings with prospective clients in order to see whether their idea would work in reality. The empirical approach to implementing the business idea functioned later as a method for deciding whether to change the course with one foot anchored to the ground, preserve or give up. Thus, the empirical part of the thesis gives a great experimental insight into the underlying problem of the thesis: whether to begin the venture with focus on planning or experience.



### **1.3 Definitions**

The chapter in question focuses on certain terms that occur along the paper. The terms concerned are relevant to wholly understand each context of the thesis, and thus are briefly explained below to clarify the reader.

#### **1.3.1 Business plan**

A business plan can be defined as a written narrative, typically 25 to 30 pages long, that aims to describe all the aspects of a business venture. The aspects in question seek to answer what a new business intends to accomplish and how it intends to accomplish it. Crafting a business plan usually serves dual-purpose for most businesses; it is used both internal and external reasons. Internal reason is to understand all the necessary aspects of the new venture that might have otherwise gone remarked. The external reason is to raise money and attract high-quality business partners. (Barringer & Ireland, 2010)

#### **1.3.2 Online reputation management**

Online reputation management stands for maintaining a good image of an individual, company or an organization. Managing an online reputation is the process of monitoring, reporting and reacting on online feedback and opinions about a company and its people, products and services. (PSM Digital 2011.)

#### **1.3.3 Social media**

Social media refers to web services that receive most of the content from their users or other sites like feeds. Social media enables electronic communication through websites where users engage in online communities to share information, ideas, personal messages, and other content such as videos and pictures. (Lietsala & Sirkkunen, 2008)

#### **1.3.4 Social networks**

A social network is a term for a network of friends, colleagues, and other personal contacts. In this paper, the term rather embodies an online community of people such as Facebook, Twitter, and Foursquare. (Dictionary.com 2012.)

#### **1.3.5 Online intelligence report**

The term ‘Online intelligence report’ is a name for the product developed by the founders of VRDA | HELSINKI. The word ‘intelligence’ refers to the importance of the data that the report encompasses. The report contains different types of data and statistics of customer feedback given online about hotels.

## 2 A Review of the Literature

People are generally taught to believe that in order to build a successful company, they must start their business ventures with crafting a business plan. Plenty of books and articles discuss how to create a plan that makes possible to build a prosperous business. In addition to the published literature, companies advising entrepreneurs how to create successful business plans have been established, and these days it seems that crafting a plan should evidently be part of every startup venture. However, many people with new business ideas do not start with a proper planning, but rather with experiencing. Some experts question the importance of executing business plans by claiming planning to be a waste of time because of the rapid change of the business environment. The paradigm in question is based on the idea that instead of spending time on planning, people should be on the field gathering valuable feedback. This literature review questions the benefits of creating a business plan by responding to the following questions:

1. What are the perceived benefits of business planning for a new small business?
2. What are the general problems that business planning confronts?
3. What are the problems that arise from studies conducted?
4. What should future investigations of pre-venture planning take into account?

Concentrating on these four questions in this review of the literature is a prerequisite for addressing whether pre-startup planning should take place when establishing a new venture, and also to understand the needs and challenges that the studies regarding the issue confront.

## **2.1 What are the perceived benefits of business planning for a new small business?**

A common perception is that a new business should be planned prior establishing a startup (Castrogiovanni 1996, 801). Writing the plan forces the founders to go through every aspect of their business and pay attention to its most important priorities and goals. (Barringer & Ireland, 2010) Planning pushes entrepreneurs to gather and analyze information, which enables entrepreneurs to quickly identify what they do not know, evaluate required tasks that can help solving problems and attain goals, identify risks and strategy, and projecting financial developments. (Delmar & Shane, 2003) Crafting a business plan also helps people to communicate the purposes, objectives, and activities of the business, which are a prerequisite to achieve a successful venture. (Gartner & Liao, 2009)

According to Delmar and Shane (2003), planning fastens a decision-making process compared to trial-and-error learning where a rapid discovery must be taken place in order to survive. By gathering and analyzing information, founders can enhance market understanding and test their assumptions without implementing time-consuming processes of first taking action and expending resources. Hence, resource expenditure can also be diminished; by planning first and then acting afterwards enables entrepreneurs to test assumptions on the paper rather than in action. Also, according to the principles of organization theory, "--planning before taking action improves the quality of most human action". (Delmar & Shane 2003, 1167.) Thus, planning helps founders to attain the necessary knowledge to guide the company successfully with its future actions. (Gartner & Liao, 2009)

Regarding environmental uncertainty, planning can be seen to reduce the contingency of new businesses. (Castrogiovanni, 1996) As noted in the previous chapter, due to pre-startup planning, founders can possibly make better decisions and consequently take more effective actions when more knowledge is gained. According to Castrogiovanni (1996), environmental uncertainty stimulates planning because more learning is desired under uncertain conditions than under certain ones. The successful outcomes of actions are not assured when the environment is uncertain, and proactive

learning through planning can help the founders to face the challenging environmental conditions easier than without planning. (Castrogiovanni 1996, 811-812.)

In addition to influencing founders' decision-making process, resource expenditure, and facing the uncertain environment, planning helps entrepreneurs to concentrate on the most important activities. By establishing a plan with specific operational steps to achieve a greater goal, it allows firm founders to focus on the company's key activities rather than activities that sidetrack their efforts. Also, planning is proved to be beneficial in terms of motivating employees to achieve company's goals; when employees are involved in business planning, they perceive they have the opportunity and ability to influence the outcome of their own behavior. Self-set goals have greater motivational impact on employees than relative performance goals. (Delmar & Shane, 2003)

Besides benefiting company founders internally, pre-startup planning generates an external purpose as well. A written plan presents the knowledge of the founders to others in order to gain support and resources. (Gartner & Liao 2009, 9.) According to Castrogiovanni (1996, 804), "planning legitimizes the new venture proposal and improves communication with various external stakeholders, particularly potential investors or other financiers". Potential financiers wish to see specific details to be able to evaluate the change of success of the proposed venture. Providing funding is unlikely to happen by plainly conveying the business idea to the prospective investors. (Castrogiovanni 1996, 804.) Consequently, a written plan has the benefit to obtain financing and other prospective individuals who are interested in to be involved in the venture such as suppliers, customers and employees. (Gartner & Liao, 2009.)

## **2.2 What are the general problems that business planning confronts?**

Although pre-startup planning has been found to benefit new small businesses in several ways, there are still differing views on whether the process of pre-venture planning truly influences the survival of new small businesses. (Gartner & Liao, 2009) Many researchers argue the value of planning in terms of the time spent on planning, the usefulness of the information around the uncertain conditions, learning-survival

linkage, and the relationship between planning and financial performance. The disadvantages of pre-startup planning of this review of the literature concentrate on the challenges that founders may confront when planning their businesses. The most discussed disadvantage surrounds the possibility to plan in an unpredictable business environment.

The claim presented earlier in the paper that planning fastens a decision-making process rather than trial-and-error learning can be also viewed from another angle. The claim stated that by planning founders can expand their knowledge and as follows to make better assumptions. Based on better assumptions, entrepreneurs can make mistakes on the paper rather than in action. However, there is a great possibility that the assumptions written in the plan turn out to be utterly flawed if entrepreneurs have focused solely on forecasting rather than gathering real feedback from the business environment. Hence, companies that focus on executing complex business plans may fail to notice vital issues that would have otherwise arisen from acting in the business environment. When companies in question have committed themselves so completely to act according to the assumptions made, they might not be able to adapt to the change in time after realizing the failure. (Ries 2011, 22.)

Also, how planning truly generates learning is an issue that has been questioned by researchers. Planning enables proactive learning, but cannot lead to enactive learning that only happens when people create knowledge out of their experiences. (Castrogiovanni 1996, 806.) Hence, in order to learn from a business planning process internally, planning processes must be well-developed, properly implemented, and controlled. (Bracker, Keats, & Pearson, 1988.) According to Bracker et al. (1988), the process of creating the plan is a key component of performance, not the plan itself.

The most argued matter regarding planning in the literature reviewed in this paper is whether planning is valuable under the uncertain conditions that surround startup ventures. According to Professor Henry Mintzberg (1990), forecasting the future with a complete confidence is not possible, and thus managers should not evaluate their organization's strengths and weaknesses until they become evident from the trial and error experience. (Ansoff 1991, 454.) A professor and US economic strategy academic

Robert M. Grant (2003, 493) states that in the last quarter of twentieth century, macroeconomic disequilibrium, exchange rate volatility, the microelectronics revolution, and the emergence of newly industrializing countries have created inability to predict demand, prices, exchange rates and interest rates. Hence, the challenge in question influences companies' ability to plan. If established companies are to flourish and survive in the increased volatility business environment, strategies that are flexible and creative as well as less concerned with specific actions, and more with establishing clarity of direction are required. The primary contribution of planning is to establish a process for strategic thinking and organizational learning. (Grant 2003, 491-493.)

### **2.3 What are the problems that arise from studies conducted?**

Studying the benefits and disadvantages of business planning is a comprehensive and a complex process that can be examined from various perspectives. According to Liao, Moutray, and Welsch (2009, 2), "Most of the entrepreneurship literature has focused on successful ventures, so little is known about why ventures fail." Generally, a small amount of entrepreneurial discontinuance may arise for reasons that can be attributable to failure. Hence, little attention has been paid to the inception of a new venture, and too much to venture growth and venture performance. (Liao et al. 2009.)

A study conducted by Delmar and Shane (2003, 1180) indicate that "--business planning would enhance founders' product development and venture organizing activities and would reduce the hazard of venture disbanding." However, the study encompasses a few limitations. First, the study in question does not determine whether the value of business planning lies in the process of planning or in the quality of the crafted plans. Second, the study did not measure the content of the information contained in the plan, the quality of implementation efforts, or the time spent on planning. Third, the study about business planning and new venture development was conducted in Sweden, thus the results may not be valid universally.

According to Castrogiovanni (1996, 801), studies that have been conducted regarding whether small businesses should be planned prior their startup have shown mixed results. Several studies have indicated that there are positive linkages between planning

and business performance, but in other studies relationships either were not found or they vary across industry sectors. Due to the inconsistent results, various researchers have raised methodological concerns. Castrogiovanni (1996) states that contextual conditions such as industry structure, uncertainty, and an organizational life cycle stage should be examined in the studies of pre-startup planning; planning processes and their effects may differ between small and large businesses. However, it is important to note that "--measurement of contextual conditions is very problematic because the relevant constructs are aggregate abstractions of attributes pertaining to specific events, tendencies, and other phenomena." (Castrogiovanni 1996, 816.)

#### **2.4 What should future investigations of pre-venture planning take into account?**

As noted in the previous chapter, contextual conditions such as industry structure and organizational life cycle should be examined; longitudinal research designs are encouraged in order to yield a more complete understanding about pre-startup planning and survival. For instance, there are supposedly situations where a narrow opportunity window requires fast actions of firm's founders, too fast for comprehensive pre-startup planning to occur. Castrogiovanni (1996) also suggests that environmental uncertainty and founder knowledge should be further examined. In addition, future research could examine the attributes of good plans; which methods and procedures result in crafting a great plan. (Castrogiovanni, 1996)

Liao et al. (2009) suggests for a longitudinal research design, where individual firms are followed from birth to death, and then identified the individual, organizational, and context factors that may contribute to a firm's failure. "Researchers should make ongoing observations of the entrepreneurs, the environment, and the firm." (Liao et al. 2009, 12.) Only through the longitudinal study with a quasi-experimental design approach would enable uncovering the factors that differentiate failed group from others. In addition, the moderating effects of a risk taking propensity should be examined in order to find out more about venture's competitive strategies. (Liao et al. 2009.)



Based on the study conducted by Delmar and Shane (2003), they suggest future research on the relative importance of planning as a process and plans as an outcome. Also, the amount of time spent on business planning is hoped to be examined since the factor might have a non-monotonic relationship with disbanding, a firm organizing activity, and product development in new ventures. Based on the findings of Delmar and Shane (2003), planning reduces the likelihood of venture disbanding, and increases venture organizing activity as well as product development. However, the results previously mentioned would require future research on the relationships between business planning and new venture development. That being said, "--much more work on the role of business planning in new venture development remains to be done." (Delmar & Shane 2003, 1183.)

The barrage of several approaches to examining whether pre-startup planning should take place when establishing a new venture indicates the complexity of the problem. While various research has been conducted on pre-startup planning, research has illuminated some underlying factors that the studies made regarding the issue are still rather scarce, and their content too slight to answer the question whether pre-startup planning should take place when starting a new venture. Research has shown the need for a comprehensive approach to the problem that includes observation in contextual conditions, founders' knowledge, environmental uncertainty, firm's risk taking propensity, planning as a process and planning as an outcome, and also the time spent on planning.

### **3 Company Description**

The company VRDA | HELSINKI is specialized in increasing customer satisfaction in the hospitality industry. By utilizing technological developments and online social networks, VRDA provides more customer feedback for companies, thus helping businesses to improve their services based on the given feedback. The company enables businesses in the hospitality industry to receive a greater understanding about their customers' perceptions and expectations, which can be exploited in their business operations. VRDA aims to reinforce the link between companies and their customers; staying as close as possible to customers is after all the key achieving exceptional customer satisfaction.

#### **3.1 Market opportunity**

Recognizing a problem or an opportunity gap and creating a business to fill the gap excites the entrepreneurial venture. (Barringer & Ireland 2010, 66.) An entrepreneur must observe trends and see whether there is a need and time for a certain product, service, or business that creates value for its buyer. In order to gain a profitable position, a firm must enter a new market when the market has not grown and matured yet. (Barringer & Ireland 2010, 67.)

The founders of VRDA noticed a growing trend among hotels in utilizing online guest reviews. These days Internet enables people to share their experiences about services on the web, thus providing valuable customer feedback for enterprises (Rogers 2012). According to a research made by e-tailing group, "92 % of Internet users read product reviews and 89% of people say that reviews influence their purchasing decision." (Hotel News Resource 2012.) Alongside getting feedback from companies' business operations, online reviews work as an excellent marketing tool since customers often make their ultimate decision based on the reviews. Customer reviews can be seen to be the ultimate source of truth. (DeLollis 2012.)

Companies that sell online reputation monitoring tools have emerged recently due to the trend of sharing valuable feedback online. The founders of VRDA | HELSINKI started to look for a chance to launch a service around the technological programs that gathered online customer feedback. After researching whether companies in Finland utilize online review monitoring tools, they found out rather fast that neither private hotels nor hotel groups in Finland had any online tools to help hoteliers better manage online guest reviews and turn reviews into actionable data. This was the point where the founders started to experiment whether their ideas about how to benefit from online reviews would fit into the opportunity window that seemed to be wide open.

### **3.2 Team**

The current team of VRDA consists of two people, who decided to start to explore the hospitality industry with the idea of helping companies to increase their customer satisfaction. The founders are family members whose parents as well as grand parents have mainly been self-employed. Both have grown up in a family who has cultivated progressive ideals and might ideas. A mindset that fosters persistent striving and positive thinking has been firmly embedded with both of the founders. The founders in question have travelled extensively throughout their lives and lived abroad. They have experienced much about accommodation all over the world. Both have always been interested in the hospitality industry; how to be able to please people and meet their expectations when staying at hotels or eating out, what are the matters that achieving high customer satisfaction require. That being said, customer satisfaction has been an intriguing issue for both the founders, which has ignited the spark for their current business venture.

One of the founders, the author of the thesis Bettina Bergström, is a graduate student in the HAAGA-HELIA University of Applied Sciences. Ms. Bergström has been obtaining a hospitality management degree, that has created an excellent base for doing business in the hospitality industry. Ms. Bergström has also accomplished a full semester exchange period in the University of San Francisco, where she gained much valuable knowledge about hotel management and entrepreneurship in general; she met inspiring professors and intriguing business people in the hospitality industry that

shared their life experiences and thoughts about the business world. Talking with such heartening people and learning from them assured the belief of her abilities to sincerely create something great and valuable. Ms. Bergström has working experience in selling and PBX service at an upscale hotel in Orlando, Florida.

Another founder, Ron Bergström, has always been interested in entrepreneurship and creating successful businesses. Mr. Bergström attained a degree from Helsinki Business College, where he learned essential tools for building a functional enterprise. Ron has started to make business since he was 16 years old; he has succeeded but also confronted several failures during his entrepreneurial attempts. Hence, Ron credits his success only to failure and pain. Alongside conducting his own business, Mr. Bergström worked for his father's company and gained valuable information about how to run a bigger business. After working for awhile in the family business, Mr. Bergström decided to take part in a project where a team strives to establish a children's plaza in Mongolia. He worked as the Project Manager in the task and handled the project successfully.

Both Ron and Bettina have followed closely what being an entrepreneur is and what it requires from personality. They believe that with a right mindset and certain priorities lead to a successful outcome in anything people try to do. A positive thinking, persistence, and humane values work as an inner guide for a flourishing venture. The inner passion to learn from people, to learn about life is essential anything the founders want to do and how they want to live their lives. That is the fundamental thought they want their business to cultivate and be founded on.

Although the founders have an optimal entrepreneurial mindset, self-employment experience and a little experience in working at a hotel, the weaknesses the team still confronts are young age and lack of an industry-specific experience. When interacting with larger companies and especially older people who have a vast working experience in the industry, the founders' creditability is often questioned due to the young age. Nevertheless, the founders believe that their youthful enthusiasm can on the other hand convey positive outcomes; customers may be fond of the founders' innovativeness and the opportunities that the young people bring along. Regarding the

scarce industry-specific experience, the founders may be more innovative and flexible ones than those who have more experience. As Liao et al. (2009, 12) have stated in their research concerning start-up resources and entrepreneurial discontinuance, “an entrepreneur with longer experience in an industry may also entrench in the existing system and structure, which blindsides him or her from recognizing opportunities and threats.”

### **3.3 Strategic relationships**

As the founders discovered the idea of helping hoteliers to receive more customer satisfaction data, they started to plan their service and create the initial product. The founders believed that in order to find out fast their customers’ needs, they had to get in touch with prospective customers and begin to experience rather than spending much time with planning. After the initial product was somehow completed, the founders put their efforts on selling. The founders started to gather valuable feedback by making selling calls and arranging meetings, and this strategy enabled a true learning through the people who had been working in the industry for a long time.

One of the approachable customer hotels were the Hotel Haven that was then ranked number two of 72 hotels in Helsinki in TripAdvisor. (TripAdvisor LLC 2012.)<sup>1</sup> The founders contacted the Hotel Manager Janne Ant-Wuorinen and after the first meeting Mr. Ant-Wuorinen got on board as a mentor to the product development. The founders suggested him to act as a product development mentor because of his extensive background in the hospitality industry. Furthermore, Mr. Ant-Wuorinen’s positive attitude made an impression to the founders which impacted on the decision of asking for cooperation.

The cooperation with Janne Ant-Wuorinen turned out to be very worthwhile; the product was seeking its final shape and based on Mr. Ant-Wuorinen’s opinions and

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<sup>1</sup> TripAdvisor is the World’s largest travel site that offers trusted advices from travelers, travel choices and planning features. The site includes over 60 million reviews and opinions. (TripAdvisor LLC 2012.)

advice the product approached to its completion. Alongside improving the product, the founders gained very valuable knowledge about the industry and specifically about the hotel business in Finland. The insights provided by Mr. Ant-Wuorinen enabled the founders to reflect the knowledge with the feedback gotten from interacting with another managers. That being said, the collaboration with Janne Ant-Wuorinen proved to be extremely valuable in terms of guiding VRDA | HELSINKI.

Alongside building a relationship with Janne Ant-Wuorinen, the founders focused on having as good relationship as possible with the managers of a certain online reputation management technology company from Netherlands. Since the service the founders are providing is strongly based on certain technology, the support from the technology company is highly required. Furthermore, the idea of acting as an intermediary when providing online reputation management requires approval from the technology partner since the primary purpose of the technology companies is to offer software for hoteliers, not agencies. A close cooperation with the certain technology company has also enabled to act as an affiliate for the software if hoteliers would be more interested in using the technology rather than having the report.

It is important to note that through the compounded relationships the founders of VRDA gained such crucial information that strongly influenced in the initial business idea. Without getting real feedback from the prospective customers and possible business partners, the idea would have lacked substantial elements, which could have not be discovered through pre-startup planning. Hence, when establishing a startup one must consider the emphasis put on planning and acting in terms of improving the business idea. According to the founders' observations, it is surprisingly easy to get trapped by self made assumptions, and consequently make pivotal conclusions.

### **3.4 The product and service**

The business idea is to create a report that is composed upon customer feedback shared online. Online guest reviews will be monitored and converted into a report that contains key metrics and the compendium of the given feedback. The service provides hotels an opportunity to outsource the work of monitoring and reporting an online

reputation of hotels. The report aims to be a substitute for using a monitoring software and a little bit more; all the information from the repertoire will be exploited and converted into a paper that is designed to serve hotel management the most optimal way. The service VRDA provides is designed to ease hoteliers' workload and above all, to generate information to help companies making improvement decisions.

The minimum value that the report delivers focuses on gaining more competitive advantage. The precise value can not be stated yet, since it is believed that when the report will find its final shape in consequence of a development process the value will be more than plainly gaining a competitive advantage. The prototype, however, will at least benefit its customers in the following ways: hotel management can easily see the quality of service from the customers' angle, find areas of development, and also to compare competition positions. The information in the report enables making better investment decisions based on customer feedback; customers on the web share about their preferences and dislikes, and being aware of all of those helps in mapping out which areas are in the need of development. What is more, competition advantages can be easily found when examining differences within competitors in the given feedback; what customers are buzzing about the service in different competitor hotels gives a great insight where to differentiate and what features to promote and to whom. The report strives for expanding hoteliers' knowledge and understanding about their guests and what moves them. Being fully aware of guests helps hotels compete for tomorrow, today.

The problem VRDA is helping to solve is the lack of customer feedback. Getting feedback from guests is generally taken tough and traditional paper cards do not convert much feedback to hotels. Now when the internet enables consumers to connect with one another so easily, creating a vast and efficient information network that shapes and steer experiences and markets, rejecting all the information available online would be the same as not listening to customers who see the effort of giving feedback. As known, the key to success in the hospitality industry is to provide excellent hospitality for all guests at all times, and being aware of what guests expect of the hotel creates the base for success. Accordingly, the only way to know how to meet guests' expectations, not to mention exceeding the expectations, is to listen to

customers. The report provided by VRDA is developed to broaden hoteliers' knowledge about their guests' needs and behaviors, and the report together with the internal guest feedback builds an excellent base for meeting the guests' expectations and above all, to go over what is expected.

The major challenge the product is expected to face is whether customers will understand the value of the information taken from the web. As stated in the report composed by a travel technology provider Amadeus, "Given the range of technologies coming at the industry and at the pace at which they are arriving, there are naturally concerns about the industry's capacity to absorb, evaluate, implement and actually benefit from these developments." (Amadeus IT Group S.A. 2010, 29.) However, if looking at the challenge that the company VRDA confronts from a positive angle, the idea of the Online Intelligence report rests on taking all the benefits the online monitoring technology brings, and composing a report to hoteliers so that they do not have to be concerned with such confusion the technology excites. The gauge, however, is whether the report can be built in converting value to a great extent.

### **3.5 Mission, vision and value statement**

The mission of VRDA | HELSINKI is to provide hoteliers a widespread understanding about today's customers' needs and behaviors, by exploiting the newest technology that captures customer feedback given online, and contributing an intelligence report to help hotels to be the most adaptable to the needs' and nature of tomorrow's traveler.

Within the forthcoming years, VRDA | HELSINKI will be able to provide such distinguished information about current guests to the Finnish hotels that allow hospitality companies to improve their customer satisfaction level to a considerable degree, thus cultivating the image of Finnish hotels to exquisite.

The company VRDA | HELSINKI cherishes positive mindset and persistent striving. Integrity, humane values, and true willingness to help companies to develop their business activities are crucial attributes of VRDA | HELSINKI that will be fostered to



a great extent. Everything that is to be done, must be based on an inner passion to learn and to develop oneself and others. The underlying thought of VRDA | HELSINKI follows a statement given by a German born American Physicist Albert Einstein: "The true value of a man should be seen in what he gives and not in what he is able to receive."

## **4 Industry Profile and Overview**

The Finnish hotel industry consists of three major hotel chains, and other smaller chains as well as private hotels. The biggest chains, Sokos Hotels, Restel Hotels and Scandic Hotels encompass 60% of the overall market and cover half of Finnish hotel rooms. (Helsingin Sanomat International Edition 2010.) (Visit Finland 2012.) Smaller chains, which also consist of private hotels, covers Finlandia Hotels, Best Western Hotels Finland, Lapland Hotels, Private Hotels, Next Hotels Finland, Palace Kämp Group, Royal Ravintolat Oy and Avanhotellit Oy. In addition to the companies previously mentioned, other private owned hotels exists.

### **4.1 Industry background and overview**

The formation of the Finnish hotel industry leads to 1960's when the Finnish legislation was modernised. The standard of living had improved, the amount of foreign travellers had increased, and laws had emancipated, which consequently raised the demand for hotel services in the 1970's. In consequence of the economic upswing in the 1980's, an unforeseen number of hotels were being built in Finland. A fierce competition in the Finnish hotel industry was then originated, and since then the amount of hotels have only increased. (Alakoski, Hörkkö & Lappalainen, 2006)

In the 20th century, more international hotel chains have entered Finnish markets and foreign ownership has increased. The hotel industry has been polarized; the industry mainly covers bigger hotel chains and smaller private companies. Private hotels must compete against bigger hotel chains and as a result, hotel marketing chains whose primary goal is to enhance common prosperity and outsource marketing have come into existence. The management and authority, however, still remain in each hotel member. Finlandia and Private Hotels are examples of the aforementioned hotel marketing chains. (Alakoski et al., 2006) (Private Hotels 2010.)

These days internationalization has strongly become part of the Finnish hotel groups; major hotel chains are constantly looking for partners and new ways to compete in the global market arena. Bigger companies are interested in the synergies of scale and ready-made concepts, and thus cooperation and franchising contracts with

international hotel chains have been signed. Companies are focusing on brand thinking, where hotel packages are clearly confined to particular target groups. Hotel groups such as Sokos Hotels, Restel, and the Kämp Group deploy franchising in their business by purchasing a license of a certain brand name and service concept. Hence, the buying hotel commits to particular quality and product requirements based on the contract made. The selling corporation charges for a license fee of the contract and also a certain percent of the total sales. (Alakoski et al., 2006)

As a countermove for dominant hotel chains, new types of accommodation have emerged in Finland; life style hotels, boutique hotels, and luxury design hotels have entered traditional Finnish hotel markets. For instance, an American born hotelier Marc Skvroc with his Finnish wife Mia Skvroc brought a new luxury design hotel called Klaus K to Helsinki in 2005. Mr. Skvroc's idea was to create a new hotel category for Helsinki. (DesignHotels.com 2011.) In addition to the hotel Klaus K, the Hotel Haven and Fabian are privately owned small luxury hotels in Helsinki, which are designed to provide homely atmosphere with high-quality services for the discerning guests. (Royal Ravintolat Oy.) (Hotel Haven.)

## **4.2 Significant trends**

The hospitality industry is expected to evolve as technology pushes hotels to be more social and engaging their marketing efforts through social media. (Hotelmkteting.com 2011.) In 2011, social media was at the top of tourism marketing activity and social media was used to influence friends and followers' to drive bookings and build loyalty. (Tourism-review.com 2010.) It is believed that by 2016, half of the travel industry will be utilizing social media as a way of generating revenue and bookings. (Hotelmkteting.com 2012.) In addition to marketing benefits, social media enables hoteliers to find out what is said about their companies and how the quality of the services are perceived, thus providing hoteliers a possibility to improve their services. (Tourism-review.com 2010.) The return on investment of social media, however, has been difficult to determine very specifically. (Hotel Industry Magazine: hotel-industry.co.uk 2012.)

As consumers are openly giving feedback on various websites, several hotels have started to utilize online reputation management technology. Social media sites are open to unhappy customers, and therefore the need for monitoring guest reviews has arisen. Social media and online review sites enable sharing post complaints on their hotel visits, which has the possibility to attract negative publicity and impact negatively on consumers' purchasing decisions. That being said, the extensive amount of feedback shared on the web has created hoteliers a need for managing their online reputation in order to better connect with travellers and understand their expectations. (Hotel News Resource 2012.)

In reference to what was discussed in the previous chapter, online reputation management is forecasted to become an integral part of the hotels in 2012. According to Brian Ferguson, EVP at Expedia, a 1 point increase in a review score equates to a 9% increase in average daily rate (ADR). RJ Friedlander, the CEO of ReviewPro, a Sabre Hospitality Solutions partner, states that insights from social media and online reviews can be used to improve hotel performance throughout the organization. Therefore, according to Mr. Friedlander, hoteliers should invest in reputation management technology that offers the ability to take advantage of the opportunity that maximizes the return on investment in the process of improving performance during the year ahead. (Sabre Hospitality Solutions 2012.)

In addition to managing an online reputation, mobile bookings and research are foreseen to belong the top hospitality trends in 2012. It is believed that more and more travelers will use their mobile phones to book and communicate with the hotel. According to Forrester Research, mobile channel booking increased four-fold between 2008 and 2010. Furthermore, Google indicates that that mobile devices will overtake PC's as the most common Web-access device by 2013. (Hotelmarketing.com 2012.)

To draw a conclusion of the trends previously discussed, the global trends to 2012 focuses on utilizing social media and technology. Nevertheless, it is important to note that the global trends do not always follow concurrently to every country. When examining some of the largest Finnish hotel chains' annual reports, one can notice that any mentions about focusing on utilizing social media or to manage an online

reputation can not be read. Instead, much emphasis is put on the ecological issues. Based on the Restel's annual report 2011, the company will focus on coaching their staff about environmental management in the future. (Restel Oy.)

### **4.3 Industry analysis**

The founders saw a market opportunity for their product by observing technology trends concerning online reputation management that were happening globally. In the very beginning of their venture, the founders mapped out how widely spread the online reputation management technology was. Several software were developed to help hoteliers to optimize the benefits that social networks were able to bring. By seeing the vast demand for utilizing the technology in question, the founders did not hesitate to start finding out whether the demand would extend to the Finnish hotel markets.

The founders started to study the industry players, look for contact informations and based on the information gathered, they began to make inquiry calls in order to find out about the current online reputation management of the hotels in Finland. Soon the founders found out that the prospective customer hotels were aware of the trend, but not have gone very deep into the topic. The top level management in bigger organizations X and Y were interested in the service VRDA | HELSINKI was providing. Still, the top level management in a major company X did not see online reputation management yet to be a current issue for them. A visit to another large company's top management, however, triggered the hotel group Y to discover the actions the company is currently putting on their reputation management.

According to an interview the founders conducted with a Sales Manager of company Y in the beginning of March 2012, the top management of the company in question had heard of reputation management software but had not familiarized themselves well with the topic of managing social media. In consequence of the founders attempt to negotiate a deal, the hotel group Y hired a Reputation Mediator to survey the company's current reputation management system. Due to the information the founders managed to gather from contacting both companies X and Y, it seemed that

the selling efforts of VRDA | HELSINKI rather introduced the large hotel companies to the new growing trend.

”The first technique that an entrepreneur has available to discern the attractiveness of an industry is to study industry trends.” (Barringer & Ireland 2010, 171.) Although the founders had gathered information about current trends from the web, books and from interviewing people who are working in the industry, it was extremely difficult to realize the preparedness level for the new trend of each company. Some companies, were much ahead of following the online reputation management trend than bigger companies. When the founders visited a Digital Online Manager of a smaller hotel group, they found out that the company was well aware of the benefits and opportunities that the online monitoring technology can bring unlike the other hotel groups.

When failing with the first selling processes, it pushed the founders to analyze the differences between the trends globally and the trends locally although the same industry was in question. If there is a window open for a certain market, the problem seems to occur whether the opportunity really correlates with of current interest of prospective customers. In the founders’ case, although various hotels were utilizing online reputation technology and openly sharing benefits from the utilization of online reputation management around the globe, the trend did not quite hit the interests of the hotel groups in Finland. After failing the selling efforts to the bigger hotel groups, the question among the founders arose whether a failure was because of the sold service did not yet correspond of current interest or whether other factors such as the founders’ creditability or the proposal played a significant part on the companies’ purchasing decision.

After asking about the current trends of the Finnish hospitality industry from Hotel Haven’s Hotel Manager Janne Ant-Wuorinen, the founders were able to pull some feedback puzzles together. Mr. Ant-Wuorinen stated, that many hotels are currently diminishing personnel resources in order to cut costs. Mr. Ant-Wuorinen also urged the founders to think about the direct link to profit; does the service the founders are providing has a straight correlation to increasing revenue. To examine the benefits the

online management report is thought to bring, one can notice that a straight link to raising revenue can not be found. Without a direct correlation to profit when companies are aiming to limit their budgets, it is very difficult to assure the necessity of such service.

According to all the feedback gotten from prospective clients, it seems that the service VRDA | HELSINKI is providing does not quite yet correspond the Finnish hotel companies' interest. It may be a matter of time when the benefits of monitoring social networks become of current interest of hotels at which point the service would greatly serve the hoteliers' needs. Also, it is important to consider that when monitoring social networks becomes to-date, are hoteliers more interested in obtaining the monitoring software or are they rather interested in outsourcing the managing of the technology. The founders asked about the matter from Mr. Ant-Wuorinen and he figured that most companies would be willing to outsource the online reputation management due to the extra work it requires. That being said, there could be great potential for the service VRDA | HELSINKI has developed.

#### **4.4 Outlook for the future**

Technology developments enable companies to capture information on a scale that has not been possible to reach before. (Axelsson & Wynstra, 2002) A technology partner Amadeus published a report in 2010 that discusses about the future of hospitality by 2020. According to the report, for the next decade technology will be central to better understand customers, delivering guest expectations, managing hotel operations and refining sales and marketing approaches. Based on the survey conducted by Amadeus, 95 per cent agreed that by 2020 hotels will increasingly look to new technologies to highly increase efficiency, reduce costs, personalize the customer experience and improve service. (Amadeus It Group S.A. 2010, 25.)

Alongside seeing technology as a great way to improve businesses, the findings in the report also suggest that traditional notions of customer segmentation have to evolve; a great emphasis will be put on offering a customer vast variety of choices from which guests can personalize their hotel stay. Social media is being stated to be the solution

for understading the evolving needs of the customers and perceptions of brands and service quality. By being alert what is being said in social media enables hoteliers to develop service propositions, marketing messages, and pricing solutions that reflect the needs of more and more diverse customer base. Based on the issues perviously discussed, the future challenge for the hoteliers is to see the potential of the data that social networks provide; the data could be used to personalize the travel experience and learn more about guests through each stay. As stated in the report, the differentiation and advantage to hotels comes from how hoteliers understand to use the information to enhance and enrich the guest experience. (Amadeus IT Group S.A. 2010, 13.)



## **5 Market Analysis**

The Finnish hotel markets are rather scarce, since it is dominated by the three large hotel chains Sokos, Restel and Scandic. As mentioned in the Industry Profile Overview of the plan, three major hotel groups in question cover 60% of Finnish hotel market and half of Finnish hotel rooms. Due to the domination, the success of VRDA | HELSINKI's business is very much dependent on the major hotel groups' willingness to buy the service. However, there are still smaller and privately owned hotels that would bring a sufficient income for a start. By cooperating with the smaller ones, the service and the report could be developed to an extent that the purchasing willingness of the service among the largest hotel groups could potentially increase.

### **5.1 Market segmentation and target market selection**

The service is designed to serve the hotels that are willing to manage their online reputation. The major market segment will thus be the ones interested in the reviews given online. The prospective customers are segmented based on the available reviews on online social networks, since the online management report can not be composed otherwise. A rather large influence factor on the amount of the given reviews online is the location of the hotels, which of course correlates with the popularity of the hotels. Hotels situated in smaller cities in Finland receive relatively small amount of reviews compared with the ones in bigger cities such as Helsinki, Tampere and Turku.

However, some of the hotels in Lapland are also considered as prospective customers since the online review flow of certain hotels is fairly large. In addition, according to Finpro, a global organization building the growth and success of Finnish companies' in international markets, some of the Laplands' best opportunities for growth are obtaining information about consumer purchasing behavior from social media. (Finpro 2011.) That being said, an opportunity for the online management report can be seen to reach Lapland as well. The opportunity however, will be very dependent on the amount of reviews available online and whether the interest of hoteliers meets the service.

To conclude, the target market covers the hotels in Finland that are interested in utilizing online reviews to enhance their operations. The chance whether the report is possible to compose highly depends on the amount of the reviews given online. In order to build a flourishing venture, the largest purchasing power is in the biggest hotel groups of Finland named Sokos, Restel and Scandic. Hotel markets in Lapland should also be considered as potential buyers.

## **5.2 Buyer behavior**

The target customers of VRDA are the top-level managers in hotel companies. Usually, the Sales Manager at Corporate Sales is responsible for business to business purchasing decisions, and therefore VRDA has reached each potential customer by first contacting to companies' Sales Managers. Concerning the main characteristics of the target customer group, the age is between 30 to 50. The customers are mainly men, who have a vast experience in the hospitality industry, most often gained experience in positions as a Key Account- or Revenue Manager. Hence, when proposing a deal one must take into account that Sales Managers in general are very well aware of how every purchase influences on their companies' figures. Therefore, when proposing a deal, one must understand that it will be more difficult and time consuming to make the purchasing decision if the expenditure of purchasing the service is determined high.

When examining the process of buying decision more closely, one can notice that one of the companies where VRDA went to negotiate for a deal followed exactly the three first stages of Five-Stage Model of the Consumer Buying Process developed by marketing scholars (figure 1). (Keller & Kotler 2006, 191.)



Figure 1. Five-Stage Model of the Consumer Buying Process (Keller & Kotler 2006, 191.)

When VRDA introduced their service to the company in question, the need for monitoring an online reputation was somewhat recognized, but not yet examined in detail. Introducing a solution for the problem triggered the company to hire a researcher, who searches information about the matter and possibilities available, and based on the results evaluates the best possible solution to be deployed in the company. It is important to note that the need for such service VRDA provided was not fully recognized, which influenced the decision of conducting a research regarding the company's current online reputation management.

It is also important to acknowledge that the decision-making process in organizational buying takes far longer than selling the service to private, smaller companies; more people are involved in decision-making, thus increasing the amount of buying committees. (Keller & Kotler, 2006) According to the founders' observations, in larger hotel groups the decision making process has proved to be more complicated and more time consuming than the decision making in smaller hotel companies. In bigger organizations, a new offer must often be introduced to another members at a general

meeting, and most frequently there are long-standing issues to be discussed that require bigger attention than the newer ones. Therefore, patience and persistence are required when doing business with larger buyers.

### **5.3 Competitor analysis**

Any companies that would serve the similar service as VRDA | HELSINKI is providing is not yet known. However, businesses that offer hotels their online monitoring software can be regarded as competitors as they will sell the insourcing option for hotels. If a hotel decides to buy the technology and is satisfied with using it, there is a lost customer at least by the time the hotelier is willing to outsource the reputation management. That being said, the main competitors to VRDA is foreign software providers since no such technology made by Finns exists.

It is important to take into account that VRDA has hit the markets rather early. The founders have observed and analyzed the readiness for the trend of managing an online reputation of the prospective hotel companies by introducing the service of VRDA. When the founders have made inquiry calls to prospective clients to find out about the knowledge of such trend, the founders have received information that has formed the decision whether to sell the report or suggest buying the software. The founders are very well aware of the available software and have examined most of them.

Concerning the competitive advantages of outsourcing the online reputation management, the report crafted by VRDA lessens hoteliers' work and time spent on playing with the technology. Furthermore, outsourcing enables hoteliers interacting with people rather than with a technology that tends to nonfunction. Above all, in the report the information gathered from online is being reanalyzed and organized so that the data is much easier to read than from the software. The report is designed to take all the benefits from the technology and convert the information to correspond hoteliers' needs even better.

## **6 Marketing Plan**

The marketing strategy from the beginning of the business venture of VRDA has been direct marketing. Since the founders started from the scratch and without much insight knowledge about the industry, the only way to test their business idea was to create an initial product, reach for potential customers and get feedback. The founders believed that the most honest and valuable feedback could only be received by trying to sell the product. The method was implemented before conducting any broader market research in order to discover what is working today rather than what might work tomorrow. For a start, it was seen to be futile to put money on advertising, since the product was not even close to completion and there was no certainty of the product's success. What is more, the Finnish hotel market is rather scarce, which made it easy to target selling efforts to certain people and companies.

### **6.1 Personal selling efforts**

As mentioned earlier in the plan, the founders of VRDA started to make selling calls after experiencing several software and crafting an initial report. In order to find out whether the idea would ignite the spark, the founders needed to find out the right people to call and get familiar with them. Approaching potential customers by email was also tested but as presumable, it did not generate much responses. Hence, the best way in the beginning was definitely a direct approach by calling.

It is important to mention that 90 per cent of the calls made resulted in some kind of lead. One of the biggest hotel groups in Finland had already bought software so there was no interest in further actions. Another major company requested a sample report and a meeting was held with another big company. The results indicate that there is a growing interest and great potential to the service provided, but the product needs to be refined in order to achieve its excellence.

When the product will be enhanced to an optimal level and companies will be more familiarized with the trend of managing an online reputation, it is believed that it will sell without any major marketing efforts. Especially when the customer relationships have already been established and potential customers are aware of the possibility to

outsource online reputation management. Based on the gained experience and feedback, trying to reach potential customers by calling has proved to work. Nevertheless, if other marketing methods will be used in the future, it will require closer examination.

## **6.2 Pricing**

The pricing of the Online Intelligence Report is primarily value-based. Since there are not any alternative suppliers, the value of the service for the customers is what mainly determines the price rather than the cost of producing the report. The report is designed to function as a substitute for an employee whose job would be managing an online reputation of hotels. Along with being a substitute for one employee's work, with the report hotel management do not have to interact with any technology nor to teach anybody to run any required programmes. What puts the most value for the service is that hotels simply do not have sources to build such report in question due to the unique content. That being said, a natural starting point for determining the price is the value of the service for the customer.

All the principles (cost based, market based, and value based) can be somewhat applied, but costs as a basis for pricing seems less relevant. The only cost that must be considered when determining the price for the service alongside salaries is the cost of using the online monitoring software. The price for the software that gathers the feedback information from the review sites and social media is monthly based, and is charged per hotel. Therefore the cost must be included in each monthly report composed by VRDA.

Alongside the delivered value of the service and the fixed costs (technology and salaries), the price that the hotels are willing to pay must also be taken into consideration. As advice from Mr. Ant-Wuorinen, the price of the service should be calculated how many rooms a hotel has to sell to cover the cost of the service. The smaller the amount is, the easier it is to accept the deal that has been offered. However, the challenge lies in being able to prove the overall value of the service that comes in the long run, especially in the beginning if hoteliers are not familiar with the benefits of

online reputation management. Accordingly, the readiness for such new service will also impact the price, and it is expected that the price can be set much higher as hoteliers will acknowledge the necessity of reputation management, the service that VRDA | HELSINKI provides.

To conclude, the price of the service will be determined so that the cost of the technology and one's work will be covered, and then the price of the value brought to a hotel will be added. To define the value, however, will be quite a challenge, since the service cannot be attributed with any economic value in a meaningful way. The information the service strives to provide is not directly correlated with growing revenue. Also, the service will bring more value to its customers in the long run if customer hotels take action based on the feedback provided in the report, and achieve positive results in the future. That being said, it is important to consider the potential long-term effects of an offering.

Furthermore, the principle of value for the customer is not always applicable to pricing in practice. (Axelsson & Wynstra, 2002) For example, the more reviews the hotel receives the higher value the service has for a particular customer. Hence, an identical service can have a different value for two customers, which must be taken into consideration when determining the price for the service. Also, a customer's financial situation has an impact on pricing; given the situation of a hotel that strives to reduce costs, the customer may not be able to pay the high price. Consequently, the founders must set the price so that when a customer who gains bigger value for the service and thus pays much more than the other customer who gains less value for an identical service can be reasonably justifiable.

## 7 Result Planning

The nature of a business influences the money required to establish a venture as well as to run a company. To state an example, computer software companies would have different capital requirements than restaurant firms. (Scarborough 2012, 471.) The business of VRDA require relatively less costs since the implementation of the reports does not require much expenses since the reports are crafted electronically. The estimated cash flow of the company VRDA is presented and analyzed below.

### 7.1 Cash flow

The cash flow of VRDA is composed for the next five years. The calculation in question is based on the preliminary pricing principle and the target amount of customer hotels. It is presumed that the amount of customer hotels has a 10 per cent growth rate meaning four hotels per year. The amount of customer hotels is expected to reach the target number in the third year.

The potential income consists of hotels which use the service provided by VRDA and pay the monthly fee to the company according to the following formula: (average number of rooms)\*(price per room). Thus, after the first year the total income for VRDA per hotel would be:  $100*4*12= 4800\text{€}$ . Please note that the amount in question is only the average amount of monthly payments of prospective hotels; much is dependent on the number of hotel rooms. According to the formula, the income of the first year would be:  $100*4*0,8*40*12\text{mth}=153600\text{€}$ .

Salaries in the cash flow are calculated for two people who run the company for the first two years. More customer hotels are expected which is why more people is needed after the first two years. Salaries are set rather high and can be deducted if needed. Another fixed cost alongside salaries is a company car which would have a leasing agreement. The price of the car would be paid in three years using straight-line depreciation. The only variable cost is the software which is dependent on the number of customer hotels. The monthly cost for the software is 70€/hotel per month on average. The inflation is expected to be around 3 per cent.



The cash flow (figure 2) shows the net cash flow as well as discounted net cash flow from each year. The break-even point, the number of hotels needed to cover the fixed cost, is 26. The break-even point is calculated from the formula presented below.

$X = TFC / (P - V)$ , where

$TFC = \text{Total Fixed Costs} = 120000 + 9600 = 102720\text{€}$

$P = 100 * 4 * 12 = 4800\text{€}$

$V = 70 * 12 = 840\text{€}$

#### Cash Flow

<i>The amount of customer hotels</i>	<i>40</i>		<i>Wages</i>	<i>2 people</i>	
<i>Avg. Na. Rooms</i>	<i>100</i>		<i>Software</i>	<i>70€/mth/htl</i>	
<i>Price per room</i>	<i>4</i>				
<i>Inflation: 3,0 %</i>					
<i>Growth</i>	<i>0.8</i>	<i>0.9</i>	<i>1</i>	<i>1.1</i>	<i>1.2</i>
<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Potential income</b>	153600	177984	197760	217536	239616
<b>Inflation</b>	1.03	1.03	1.03	1.04	1.04
<hr/>					
<b>Total income</b>	<b>153600</b>	<b>177984</b>	<b>197760</b>	<b>217536</b>	<b>239616</b>
<b>Fixed costs</b>					
<i>wages</i>	-120000	-120000	-148320	-152769.6	-158880.384
<i>car (vehicle+gas)</i>	-9600	-9600	-9600	-2400	-2400
<b>Variable costs</b>					
<i>software</i>	-26880	-30240	-33600	-36960	-40320
<b>Total expenditure</b>	<b>-129600</b>	<b>-133488</b>	<b>-162657.6</b>	<b>-161376.4</b>	<b>-167731.6</b>
<b>Annual growth rate</b>	1	1.03	1.03	1.04	1.04
<hr/>					
<b>Net cash flow</b>	<b>24000</b>	<b>44496</b>	<b>35102.4</b>	<b>56159.6</b>	<b>71884.4</b>

<b>Discounted cash flow</b>	43200	34080	53999.63077	69119.616
<b>Net present value</b>	<b>121679</b>			
<b>Break-even point</b>	<b>26</b>	hotels		

Figure 2. Cash flow calculation for VRDA | HELSINKI

## 7.2 Financial resource planning

When examining the cash flow presented in the previous chapter, the company VRDA would need 26 customer hotels to cover the costs. Therefore, the optimal amount of hotels would be around 40 which is relatively easy to reach due to the scarce amount of industry players; if one of the biggest hotel groups obtained the service it would cover at least 25 hotels. According to the founders' experience, the hotel groups would be interested in attaining the service to each hotel that receives sufficient amount online feedback data. When the founders scrutinized the feedback flow online of the biggest hotel groups, around 30 hotels were getting adequate amount of feedback in order to constitute valuable data. That is why the target number of customer hotels have been set to 40.

The operation of the company VRDA | HELSINKI is designed to be rather small and easily manageable. Therefore, the concentration is not to increase the volume of customer hotels but to create enough value for the existing clients and little by little increase the turnover. If, however, bigger net revenue is wanted changes in pricing must be made and more customer hotels must be obtained. Nevertheless, it is important to mention that if the company grows business premises must also be attained. In the beginning, however, the focus is on starting the venture operations rather fast and with high productivity.

## 8 Conclusions and Discussion

The whole process of establishing a startup from the scratch and crafting a business plan alongside persistence attempts to build a venture has truly been an invaluable experience for both founders. As introduced in the beginning of the thesis, the founders discovered a business idea in January 2012 and started to implement the idea at the beginning of February 2012. The startup process enabled the other founder, the author of the thesis, to utilize most the knowledge and skills learned in HAAGA-HELIA in the creation of the novel business. To contribute the learning to a great extent, the founder in question determined to create a business plan and write the plan from an angle whether pre-startup planning would significantly enhance the success of a new small business. Consequently, the decision ushered to the composition of this thesis, a business plan for VRDA | HELSINKI.

### 8.1 Key findings

The theoretical framework of the thesis encompassed a review of the literature together with empirical experience. A review of the literature discussed the benefits of pre-startup planning and the problems that planning confronts. The empirical experience covered the experience the founders gained during the startup process; the founders created a service and a product, built strategic relationships, and approached prospective customers to get feedback whether the idea would ignite the spark. Hence, in the thesis the knowledge gained from experience and the knowledge obtained from the literature review were reflected to enlighten the problem whether entrepreneurs should implement pre-startup planning or not.

The key findings indicated that various factors must be taken into account to being able to clearly state that pre-startup planning should be conducted when starting a new venture. The factors in question include observations in contextual conditions, founders' knowledge, environmental uncertainty, firm's risk taking propensity, planning as a process and planning as an outcome, and also the time spent on planning. Considering all the factors previously mentioned, several approaches to be examined shows the complexity of the problem. It is important to note the amount of studies conducted regarding pre-startup planning is rather scarce and relatively slight by

their content. That being said, research has shown the need for more studies to be implemented and with a more comprehensive approach to the problem of whether pre-startup planning should occur when establishing a new business.

## **8.2 Personal learnings and self-development**

The combination of the empirical and theoretical part was excellent in terms of learning; being highly motivated both establishing a successful company and crafting a great business plan truly enabled a profound learning experience for the author of the thesis. By simply going to the field to try out what it requires to be an entrepreneur and above all, what it requires to build a flourishing venture taught the author more than any business book has ever taught. Gathering industry information and hints how to build a successful business plan together with endeavours to do business not only taught about the hospitality industry and entrepreneurship, but also about oneself; what are the things that matter the most when choosing the future career path, and is the studied hospitality industry as intriguing as the author has taught it would be. Also, what are the personal strengths that should be cherished, and weaknesses that should be enhanced in order to become more content with oneself, with life.

Things that the author have learned from the startup experience and the hospitality industry are extensive. Considering entrepreneurship, one of the most prevalent thing was to understand the areas that need to be examined before starting to implement a business idea. A great focus must be put on industry trends and market analysis. However, it is important to note that the information that was able to gather from literature did not provide comprehensive knowledge that would have helped the founders to better understand the markets and the customers' needs. When starting to implement the business idea, the founders strongly relied on the practice that the most valuable information could only be gotten from the selling processes and it proved to be that way. The feedback received from prospective customers together with the available literature such as annual reports, industry news, and business books created a more comprehensive view about what is required from the company in order to succeed.

Regarding the finding that the founders could have not known what the prospective customers thought about the service unless trying to provide it, it is supported by a proposal of Professor Henry Mintzberg, that in order to discover what business the firm will to be in can not be undertaken on paper, but have to benefit from the results of testing and experience (Mintzberg 1990, 182). Also, the founders learned that the strengths and weaknesses of the company VRDA | HELSINKI have truly come to the fore through trial and the received feedback. As Professor Mintzberg (1990, 182) have stated, “--no organization can ever be sure in advance whether an established competence will prove to be a strength or a weakness.” That being said, the knowledge that the author gained from conducting the literature review strengthened some of the findings the founders made through their startup experimentation.

In addition to being able to combine things learned from the conducted literature review with the things learned through the experience, writing the business plan for the startup and simultaneously questioning the importance of planning deepened the understanding why and how planning should take place in the future ventures of the founders. Most importantly, information about the industry and its trends must be gathered as much as possible before taking any actions. Less assumption about the industry players must be made and also less attention put on the ‘brilliant idea’ discovered. The ‘thing’, in short, is to be able to find the most prominent problem, simply create a solution to solve the problem, and manage to offer the solution at the most appropriate time. On the grounds of the business plan, writing process the founders have realized some of the mistakes they have made with their startup. The founders, however, do not believe that better planning or reading more books would have prevented the mistakes from happening. On the contrary, the mistakes made have proved the founders the importance of action in terms of learning and development.

Considering the matters learned from the hospitality industry, they are firmly centred upon how the industry works in Finland; how the companies function as well as who are the owners and the people in charge of different hotels and restaurants. Selling processes have revealed much about the people who manage hotels or hotel groups; which are the personal characteristics and what are the values the managers foster in the business life. Interacting with companies also elucidated the smallness of the

Finnish hospitality industry. Taking all the experience into consideration, everything the founders have learned and seen when dealing with various companies in the industry have truly given a great insight for their future ventures.

### **8.3 The future of VRDA | HELSINKI**

To conclude, the most important thing resulted from the process of writing the thesis is that there is an opportunity for the business idea discovered by the founders of VRDA | HELSINKI. Nevertheless, to be able to succeed, the crafted product ‘Online Intelligence Report’ requires refining, which is only possible by a close cooperation with hotels. The future trends of hospitality industry indicate that the online social networks will provide extremely valuable information about the customers’ changing needs and behaviors (Amadeus IT Group S.A., 2010). Therefore, VRDA’s initial idea of gathering the information from online and providing a comprehensive report about the feedback given could have the opportunity to succeed.

If the founders choose to go down the path of continuing with their business idea in question, the crafted business plan provides a very valuable framework for the future product development. Alongside improving the product, the business plan offers a strategy to implement in the future. Nevertheless, in case the founders choose to go down another path, the whole experience have truly provided indispensable tools for their future adventures. As the founder of Virgin Enterprises, Richard Branson has stated: “Business opportunities are like buses, there is always another one coming.” (About.com Entrepreneurs 2012.)

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## Attachments

### Attachment 1. Annotated Bibliography

Axelsson, B. & Wynstra, F. 2002. *Buying business services*. John Wiley & Sons Ltd., England.

Designed to serve the purpose of finding information about the service industry. The authors cover the characteristic of services from the purchasing point of view. The book is a valuable source for extending knowledge about pricing. Both authors are professors at the Kellogg School of Management, Northwestern University.

Barringer, B.R. & Ireland, R.D. 2010. *Entrepreneurship: Successfully launching new ventures*. 3rd ed. Pearson Education. Upper Saddle River, New Jersey.

The book introduces readers to the process of entrepreneurial success and shows how to be effective in each step. The book is an excellent source for building a business plan; it covers reasons for writing a plan and provides detailed information about what each section of the plan should encompass. The authors of the book clearly elucidate what it requires to run a business properly. The author Bruce R. Barringer is an Associate Professor at the Department of Management at the University of Central Florida. Another author, R. Duane Ireland is a Distinguished Professor at Texas A&M University.

Barrow, C. Barrow P. & Brown, R. *The business plan workbook: The definitive guide to researching, writing up and presenting a winning plan*. 6th ed. Kogan Page, London.

The business plan workbook covers the procedures and processes required to write a business plan. It provides practical and professional advice how to craft a plan. Case studies have been written to demonstrate the written concepts for readers. The authors Colin Barrow, Paul Barrow and Robert Brown are professionals in the business sector; Mr. C. Barrow is the author of more than 30 business books, Mr. P. Barrow is a Chartered Accountant with 20 years' writing, training, consulting, and commercial experience. Mr. Brown has over

20 years business experience and is also a visiting lecturer in Entrepreneurship at Universite Paris V.

Castrogiovanni, G. 1996. Pre-Startup planning and the survival of new small businesses: Theoretical linkages. *Journal of Management*, 22, 6, pp. 801-822.

The article in question provides an excellent study regarding pre-startup planning and the survival link of new small businesses. The study conducted by Professor at Florida Atlantic University named Gary Castrogiovanni reveals some of the benefits and problems pre-startup planning confronts. The article is therefore one of the most valuable sources of the review of the literature. The study in question has been used in many course books that teach about business planning.

Delmar, F. & Scott, S. 2003. Does business plan facilitate the development of new ventures? *Strategic Management Journal*, 24, 11, pp. 1165-1185.

In the paper researchers Frederic Delmar and Scott Shanes challenge prior criticism of business planning arguing that business planning is an important precursor to action in new ventures. The paper provides an excellent research regarding business planning for the literature review of the thesis. In the research, 223 new ventures initiated in the first 9 months of 1998 were examined. Mr. Delmar is professor at the Strategy and Organization Department at EM Lyon. Another researcher, Mr. Shane, is professor of Entrepreneurial Studies Department at Weatherhead School of Management, Ohio.

Liao, J., Moutray, C. & Welch, H. 2009. Start-up resources and entrepreneurial discontinuance: The case of nascent entrepreneurs. *Journal of Small Business Strategy*, 19, 2, pp. 1-15.

The article discusses entrepreneurial discontinuance. The study conducted by three professionals of the field of entrepreneurship provides an excellent source of examining the reasons why nascent entrepreneurs often fail. The study in question focuses on entrepreneurs' human and financial capital. Hence the

article offers the author of the thesis deeper understanding of the matters that influences on the success of a new venture.

Ries, E. 2011. *The lean startup*. 1st ed. Crown Publishing Group, New York.

The book in question presents entrepreneurs a new approach to their startups; a rapid movement that is transforming how products are developed and launched. The Lean Startup model provides a scientific approach to fasten product development. The approach in question helps entrepreneurs to build successful businesses under harsh market conditions. The new “Lean Startup” strategy has received credits and several new startups are implemented Ries’ developed business strategy. The author is a co-founder and CTO of IMVU and serves also on the advisory board of several technology startups. The author was named one of the Best Young Entrepreneurs of Technology by Bloomberg Businessweek 2007. The book was awarded as New York Times Bestseller and the Lean Startup methodology had been written about in *The Wall Street Journal*, *Harvard Business Review* to name a few.

Scarborough, N.M. 2012. *Effective small business management: An entrepreneurial approach*. 10th ed. Pearson Education. Upper Saddle River, New Jersey.

The book is a special edition of an established title used by colleges and universities throughout the world. The book covers extensively several areas and issues that entrepreneurs have to deal with when becoming small business owners. The book provides for its readers valuable tools for starting and managing their businesses; the book focuses on ways to build a successful business plan. The author, Norman M. Scarborough, is the William Henry Scott III Associate Professor of Information Science at Presbyterian College, South Carolina.